TRIS RATING
A Strategic Partner of S&P Global

CreditNews ข่าวเครดิต

AREEYA PROPERTY PLC

No. 173/2020
20 October 2020

CORPORATES

Company Rating: BB-
Outlook: Stable

Last Review Date: 30/12/19

Company Rating History:

Date	Rating	Outlook/Alert
30/12/19	BB	Negative
04/01/18	BB	Stable
30/12/16	BB+	Negative
13/01/15	BB+	Stable
10/01/14	BBB-	Negative
13/03/13	BBB-	Stable

Contacts:

Hattayanee Pitakpatapee
hattayanee@trisrating.com

Auyporn Vachirakanjanaporn
auyporn@trisrating.com

Jutamas Bunyawanichkul
jutamas@trisrating.com

Suchada Pantu, Ph.D.
suchada@trisrating.com

WWW.TRISRATING.COM

RATIONALE

TRIS Rating downgrades the company rating on Areeya Property PLC (Areeya) to "BB-" from "BB" and revises the outlook to "stable" from "negative". The downgrade reflects TRIS Rating's concern over Areeya's high financial leverage, tight liquidity, and weakening profitability. Most of the company's assets are pledged as collateral for bonds and bank loans, compounding its unsecured creditors' disadvantaged position to secured creditors. The rating also takes into consideration our concerns over the negative impacts of the Coronavirus Disease 2019 (COVID-19), which could put more pressure on the domestic economy and demand for housing in the short to medium term.

KEY RATING CONSIDERATIONS

Small revenue base

Areeya' revenue base is relatively small compared with other rated property developers. Its revenue in 2019 declined by 27% year-on-year (y-o-y) to THB2.87 billion, ranking 20th out of the 22 developers rated by TRIS Rating. Areeya's revenue was lower than our previous projection. The sharp drop in revenue was mainly due to the fewer condominium units transferred and the implementation of more stringent loan-to-value (LTV) rules by the Bank of Thailand (BOT) in April 2019. However, its revenue during the first half of 2020 increased by 24% y-o-y to THB1.98 billion due to the delivery of backlog from the "Chalermnit" project.

During the third quarter of 2020, the company sold a 24-rai plot in Bangkok's Kaset-Nawamintr area and two condominium projects, the "A Space Mega" and "A Space Mega 2" projects, in the Bangna area. The proceeds from the assets sales amounted to around THB2.17 billion. Thus, its revenue in 2020 is expected to rise to around THB6.19 billion. After the sale of the assets, Areeya's total backlog stood at THB1.20 billion, the whole amount of which is scheduled to be transferred in the second half of 2020. Hence, the company's revenue in 2021 and 2022 will rely solely on its ability to generate new sales. Under our base-case forecast, Areeya's revenue is expected to range between THB3.36-THB3.62 billion during 2021-2022.

As of June 2020, Areeya had 37 active projects. The remaining value of unsold units (both built and un-built) was around THB22.36 billion, comprising single detached houses (SDH; 18%), townhouses (TH; 30%) ,and condominiums (52%). About 19% of the remaining value of condominiums was ready to transfer.

Profitability comes under pressure amid the downturn

We expect Areeya's profitability to be under pressure during the downturn as the company may need to offer attractive promotions to accelerate sales. Its gross profit margin dropped significantly from 33% in 2018, to 29% in 2019 and 24% during the first six months of 2020. The drop was mainly the result of price promotions for condominium projects and a gift card campaign for the landed residential segment. Its relatively high fixed operating expenses also weakened the company's profitability. Its earnings before interest, tax, depreciation, and amortization (EBITDA) margin in 2019 declined to 6%, from 12% in 2018.

Going forward, we expect Areeya's profitability to continue to be under pressure amid the intensifying competition in the residential property market. The company's gross profit margin (excluding assets sales) is forecast to swing between 26%-28% and EBITDA margin (excluding assets sales) is likely to remain in the 8%-9% range during 2020-2022.

High financial leverage

TRIS Rating expects Areeya's financial leverage to decline to 68%-69% over the next three years. The company's debt to capitalization ratio has risen continually to a level above 70% from 2014 up to the present. As of June 2020, the ratio stood at 74%. However, Areeya intends to lower its leverage. Areeya issued THB300 million of subordinated perpetual debentures to its major shareholders at the end of the previous year and sold land plots and two condominium projects, "A Space Mega Bangna" and "A Space Mega Bangna Phase 2", in the third quarter of 2020. The proceeds from the assets sales were used to repay project loans and some of its existing debt. The company will no longer bear capital expenditures for the construction of the "A Space Mega 2" project and the investment in the "Soontareeya Residence" project is likely to be deferred.

However, the company's cash flow protection remains weak. The company's funds from operations (FFO) gradually deteriorated and have been negative since 2017, largely because of high financial costs. FFO is expected to be around THB280 million in 2020 after the divestment of some of the company's assets. However, the lower profit margin and the relatively high financial expenses may continue to pressure earnings over the next three years. Its FFO may remain in negative territory for the next few years. Under TRIS Rating's base case, Areeya's FFO is projected to range from minus THB29 million to minus THB185 million in 2021-2022. The FFO to debt ratio could improve from -4.8% in 2019 to 3.4% in 2020, and then drop to -0.4% to -2.4% in 2021-2022. Similarly, the EBITDA interest coverage ratio is expected to be around 1.7 times in 2020, and 0.7-1.0 times in 2021-2022.

Liquidity risk remains a concern

We remain concerned over Areeya's liquidity risk. As of June 2020, the company had THB3.43 billion in debt due over the next 12 months, comprising debentures of THB1.78 billion, long-term loans of THB1.05 billion, and other short-term loans of THB594 million. The company has already refinanced THB1 billion of bonds due in October 2020 with secured debentures. Its project loans were repaid with proceeds from the sale of land and two condominium projects in the third quarter of 2020. Areeya plans to roll over its short-term loans and refinance THB780 million of bonds due in April 2021 with a new debenture issue. However, based on the current debentures market environment and the company's weak financial profile, we view Areeya is considerably susceptible to refinancing risk.

Under the financial covenants on its bank loans and bonds, Areeya is required to maintain a net interest-bearing debt to equity ratio below 3 times. The ratio at the end of June 2020 was 2.7 times. We expect the company to prudently manage its capital structure to comply with the financial covenants over the next 12 months.

Concerns over softening demand and impacts of COVID-19

The residential property market closely follows trends in the domestic economy. However, the volatility in this market is much more pronounced than in the overall economy. A prolonged outbreak of COVID-19 could cause a severe economic downturn and further suppress market demand. In addition, the number of non-performing mortgage loans (NPL) could rise further. The weakening purchasing power of homebuyers and stringent bank lending policies have been the key factors affecting the demand for housing, especially in the middle- to low-income segments which are Areeya's main target customers. Areeya's cancellation and rejection rate has been above 41% since 2018. The high cancellation and rejection rate have had a significant impact on Areeya's revenue recognition.

However, we expect some positive effects from several stimulus measures launched by the government to boost housing demand. Recently the BOT relaxed the LTV regulations by allowing first-time homebuyers to take out a top-up of 10% on their housing loans, constituting 110% for the mortgage bundled with the top-up. Another measure is a cut in housing transfer and mortgage fees to 0.01% for homes priced below THB3 million, effective till the end of December 2020. Nonetheless, with the current market situation, many developers have shifted their focus toward landed property projects, particularly in the middle- to low-income segments which still have real demand. As a result, competition in this market segment appears to have intensified.

BASE-CASE ASSUMPTIONS

- Operating revenue, excluding the sales of land plots and two condominium projects, to be THB3-THB4 billion per annum during 2020-2022.
- Gross profit margin (excluding assets sales) to be in the 26%-28% range and EBITDA margin (excluding assets sales) in the 8%-9% range during 2020-2022.
- Budget for land acquisition to be THB350-THB450 million per annum in 2021-2022.

RATING OUTLOOK

The “stable” outlook reflects our expectation that Areeya’s will maintain its operating performance and financial position.

RATING SENSITIVITIES

The rating and/or outlook could be revised upward if the company’s operating performance improves and its liquidity concern is resolved. In contrast, the rating could be revised downward if the company’s operating performance and/or financial profile deteriorates from our target. The rating could be revised downward multiple notches if the company is unable to secure debt refinancing as planned.

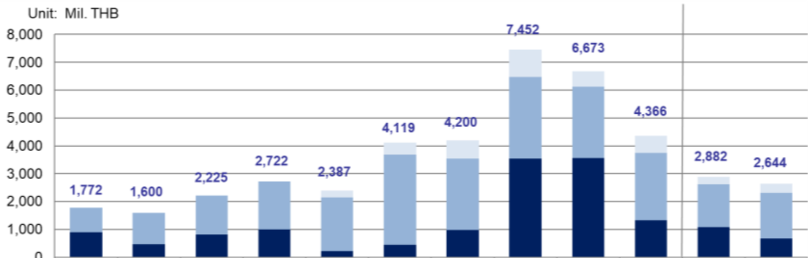
COMPANY OVERVIEW

Areeya was established by the Laohapoonrungsee family in 2000 and listed on the Stock Exchange of Thailand (SET) in April 2004. The Laohapoonrungsee family has been the company’s major shareholder since its inception, owning a 46% stake as of June 2020. Mr. Wisit Laohapoonrungsee remains Areeya’s chairman and chief executive officer (CEO).

Areeya offers a wide range of residential property products including single detached houses (SDHs), semi-detached houses (semi-DHs), townhouses, and condominiums. Its products target the middle-income segment. Across Areeya’s product portfolio, the average selling price was Bt3 million per unit. Townhouses are the company’s main product, contributing more than half of revenue. As of June 2020, Areeya had about 37 active projects with a total project value of THB36.21 billion. The value of the remaining unsold units, across all of its active projects, was about THB22.36 billion. About 52% of the value was in condominium projects, 30% in townhouse projects, and 18% in SDH projects. About 19% of the remaining value of condominiums was ready to transfer. Areeya’s backlog stood at about THB1.20 billion as of June 2020.

KEY OPERATING PERFORMANCE

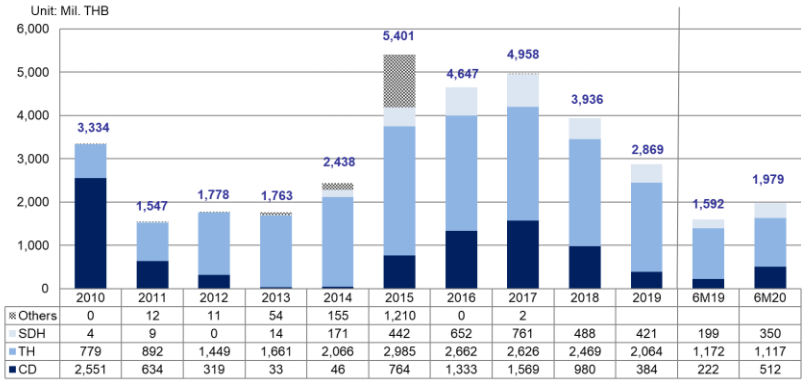
Chart 1: Presales Performance



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	6M19	6M20
SDH			27		239	436	656	978	549	626	267	345
TH	875	1,132	1,378	1,735	1,935	3,231	2,567	2,936	2,567	2,418	1,544	1,635
CD	897	468	819	987	212	452	977	3,538	3,556	1,322	1,071	663
Avg. Price SDH			6.8		6.3	5.9	5.0	5.3	5.8	6.7	6.4	6.4
Avg. Price TH	2.3	2.3	2.7	3.0	2.7	2.6	2.6	2.6	2.8	3.2	3.2	3.6
Avg. Price CD	2.0	1.9	1.5	2.2	1.7	1.6	2.0	2.4	2.5	3.2	3.5	2.8
Avg. Price Overall	2.1	2.2	2.1	2.7	2.7	2.5	2.6	2.7	2.7	3.5	3.5	3.5

Source: Areeya

Chart 2: Revenue Breakdown by Product



Source: Areeya

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

		--------------Year Ended 31 December ----------			
	Jan-Jun 2020	2019	2018	2017	2016
Total operating revenues	1,979	2,869	3,929	4,958	4,643
Earnings before interest and taxes (EBIT)	206	110	396	536	719
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	248	177	464	605	773
Funds from operations (FFO)	(140)	(466)	(154)	(67)	164
Adjusted interest expense	386	675	583	627	531
Real estate development investments	11,102	11,834	11,488	10,717	11,396
Total assets	15,304	15,279	14,297	13,510	13,516
Adjusted debt	9,395	9,680	9,713	9,075	8,931
Adjusted equity	3,249	3,253	3,332	3,340	3,314
Adjusted Ratios					
EBITDA margin (%)	12.51	6.19	11.82	12.20	16.65
Pretax return on permanent capital (%)	1.34 **	0.82	3.02	4.17	5.78
EBITDA interest coverage (times)	0.64	0.26	0.80	0.96	1.45
Debt to EBITDA (times)	36.94**	54.55	20.91	15.00	11.55
FFO to debt (%)	(5.02) **	(4.81)	(1.58)	(0.74)	1.83
Debt to capitalization (%)	74.30	74.85	74.46	73.09	72.93

* *Consolidated financial statements*
** *Annualized with trailing 12 months*

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

Areeya Property PLC (Areeya)

Company Rating:	BB-
Rating Outlook:	Stable

TRIS Rating Co., Ltd.
Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000